

## **Hospitality Industry – Managing cashflow.**

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Once restaurateurs are confident that the food and beverage gross profit percentages are at acceptable levels when compared with industry benchmarks, they should turn their attention to cash flow.

In today's business environment, there has been a major shift from the monitoring of net profitability to the monitoring of net cash flow and in particular, financiers and banks are very much cash flow focused. As a result, it is vitally important that restaurateurs and their accountants closely monitor and manage the cash flow of their business and to be prepared for any unexpected events which may affect their working capital.

Although some restaurants provide credit to corporate customers, most sales are made on a cash basis (including EFTPOS) or by credit card. This means that under normal circumstances, the cash flow should be very strong in that collections are made prior to the payment of operating expenses. If this is not the case, then an immediate investigation should be conducted and this may include external assistance in helping to identify the problem.

Some indicators of poor cash flow include:

- The business's overdraft is at its limit and the bank is reluctant or unwilling to extend
- The business may be finding it difficult to pay major overheads such as wages and rent
- Suppliers are constantly contacting the business asking for payment
- The time taken to pay suppliers is increasing

Some causes of the problem include:

- The value of stock (food & beverages) carried is too high
- The business is under capitalised
- Cash projection and budgets have been incorrect or do not exist

Needless to say, if a restaurant has not reached its break-even level of income (as discussed in the last issue) then cash flow will also be affected and may require additional working capital in the short term.

In summary, those restaurants which will be more profitable and have stronger cash flows:

- Have better management and reporting systems
- Have overheads under control
- Have better stock management

For more information on this topic, please contact Michael Dowling on 07 3422 0666.